

## Message Text

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TAGS: AGEN EFIN GR

SUBJ: DRACHMA SHIFTS FROM DOLLAR TO BASKET OF TRADING

PARTNER CURRENCIES

REF: (A) ATHENS 1846, (B) ATHENS 1501, (C) ATHENS 1278

1. MARCH 7, AT CONCLUSION OF AFTERNOON MEETING OF CURRENCY CONTROL COMMITTEE OF BANK OF GREECE, COORDINATION MINISTER PANAYIOTIS PAPALIGOURAS ANNOUNCED THAT DRACHMA WOULD NO LONGER BE PEGGED TO THE DOLLAR, BUT INSTEAD WOULD BE VALUED AGAINST A BASKET OF CURRENCIES OF GREECE'S MAJOR TRADING PARTNERS, WHICH WOULD INCLUDE THE DOLLAR. THE NEW PARITY SYSTEM WENT INTO EFFECT SAT, MAR 8.

THE CURRENCIES COMPRISING THE BASKET, AND THE FORMULA WITH ITS BALANCE OF PAYMENTS WEIGHTS ATTACHED TO THEM WILL NOT BE REVALUED THOUGH IT IS KNOWN THAT THE DOLLAR DEUTCHEMARK, FRNCH FRANC, AND DUTCH GUILDER ARE IN THE BASKET. THE BALANCE OF PAYMENTS WEIGHTS INCLUDE INVISIBLES WHICH WILL AUTOMATICALLY MAKE THE DOLLAR AND THE DEUTCHEMARK WEIGH MOST HEAVILY IN THE GOVTS

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FORMULA. FOR THE FIRST DAY OF OPERATION OF THE NEW SYSTEM,

THE BANK OF GREECE SET THE DOLLAR-DRACHMA PARITY UP ONLY ONE TENTH OF A LEPTA, AT 30.001 DRACHMAS TO ONE DOLLAR.

2. PAPALIGOURAS POINTED OUT THAT THE NEW SYSTEM WAS DEvised WITH IMF ASSISTANCE, AND HAS AS ITS PRIME PURPOSE, ACHIEVEMENT OF RELATIVE STABILITY IN THE RELATIONSHIP BETWEEN THE DRACHMA AND ITS MAJOR TRADING CURRENCIES. PARITY MOVEMENTS WILL BE SMALL, ONLY ENOUGH TO PROTECT THE DOMESTIC MARKET AND GREEK EXPORTS FROM EXTERNAL INFLATIONARY PRESSURES AND ARBITRARY AND ERRATIC INTERNATIONAL MOVEMENTS IN INTERNATIONAL MONEY MARKETS.

3. COMMETN: PURPOSEFUL LEAKS BY THE GOG OVER THE LAST SEVERAL DAYS WERE MEANT TO PREPARE LOCAL BANKING AND BUSINESS CIRCLES FOR THE CHANGE, JUST AS THE CHOICE OF A FRIDAY ANNOUNCEMENT WAS INTENDED AS A CUSHION BETWEEN THE ANNOUNCEMENT AND THE NEXT WORKING WEEK. THE GOG OPTED FOR ALIGNING ITS CURRENCY WITH TIS TRADING PARTNER IN LARGE PART AS A PROTECTION AGAINST THE SLIDING DEPRECIATION OF THE DOLLAR. IN THIS WAY IT WOULD HOPE TO AVOID THE TRADE EFFECT ON ITS BALANCE OF PAYMENTS. THE RECENT CREEPING REVALUATION UPWARD OF THE DOLLAR AGAINST EUROPEAN CURRENCIES, (LOCAL BANKERS BELIEVE LARGELY AFFECTED AS A RESULT OF THE US-IRAN TRADE AGREEMENT AND OPEC'S ANNOUNCEMENT ON OIL PRICE STABILIZATION AND THE CONTINUATION OF OIL PRICING IN DOLLARS), MAY BRING BOTH UNLOOKED FOR BENEFITS AND PROBLEMS. CERTAINLY GREECES EXPORTS WITH THE EEC (ABOUT 40PC GREEK EXPORTS) WILL BE PROTECTED IF THE DRACHMA DEPRECIATES AGAINST THE DOLLAR ALONG WITH EUROPEAN CURRENCIES. ON THE OTHER HAND, DOLLAR DENOMINATED TRANSACTIONS COULD BRING PRESSURE ON THE BALANCE OF PAYMENTS. WHAT GREECE HAS BASICALLY GAINED WITH THE NEW SYSTEM IS THE FLEXIBILITY, WHICH, IF SKILLFULLY HANDLED, CAN AFFECT ITS TRADE PATTERNS TO THE BENEFIT OF ITS BALANCE OF PAYMENTS.

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